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C O N F I D E N T I A L MUSCAT 000056

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STATE FOR NEA/ARP, EB/IFD/OMA
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TAGS: [EFIN](#) [ECON](#) [PREL](#) [MU](#)
SUBJECT: CENTRAL BANK REAFFIRMS THAT OMAN WILL NOT JOIN GCC
MONETARY UNION

REF: MUSCAT 29

Classified By: Ambassador Gary A. Grappo for Reasons 1.4 (b, d)

Summary

¶1. (C) The Executive President of Oman's Central Bank noted in a meeting with the Ambassador that rushed timing and the government's reluctance to cede control over monetary and budgetary policy led to the decision to opt out of the proposed GCC monetary union. The Central Bank official expressed confidence in the dollar peg, but said that others in the region may reconsider their currency pegs should the dollar continue its slide. The Central Bank President's outlook reflects the independent yet cautious nature of Omani government decision-making. End Summary.

Time, Sovereignty Key

¶2. (C) On January 15, the Ambassador discussed Omani views on the proposed GCC monetary union with Central Bank of Oman (CBO) Executive President Hamood Sangour al-Zadjali. Zadjali stated that the government decided not to join the union after determining that insufficient time remained to lay the groundwork needed to meet the 2010 implementation date. He remarked that a number of key issues remain outstanding, including the completion of a GCC customs union and common market, which would allow for the freedom of movement of goods, services and people. He surmised that increasing pressure on the GCC Secretariat to act on a decision made by leaders in 2000 resulted in the hasty timeline for the union. With necessary prerequisites not yet met, Zadjali commented that the government concluded that the time was not right for Oman's participation. He further opined that the GCC is moving too quickly on creating the monetary union.

¶3. (C) Zadjali relayed the government's fear of relinquishing part of its sovereignty over monetary and budgetary policy to the GCC Secretariat. While noting that current high oil prices were conducive to forming the union, Zadjali questioned its feasibility in the event that oil prices unexpectedly declined. "Given our development plans, we would need maximum flexibility in adjusting our debt ceiling and accessing the international credit markets, which membership in the monetary union would preclude," said Zadjali. As a result, he explained that the government would not be able to honor agreed upon criteria during such a

downturn.

14. (C) For these reasons, Zadjali said that the government had notified the GCC Secretariat that it would forgo its right to participate in the union until a later date, and that this decision would clearly be communicated to the public. Zadjali also underscored, however, that Oman would not oppose creation of the union and would consider membership at an appropriate time in the future. Minister of National Economy Ahmed Macki intends to issue a public statement regarding the government's position, though he already tipped his hand during his January 7 press briefing on the 2007 budget (reftel).

Dollar Still King, For Now

15. (C) Zadjali predicted that the GCC would initially peg its common currency to the dollar once it was formally introduced. He noted that the dollar was still the "best" currency in the world for monetary transactions and currency reserves. Zadjali also remarked that using the dollar made for easier budgeting, so long as oil prices continue to be quoted in dollars. From the CBO's perspective, Zadjali reaffirmed the government's confidence in the dollar. He stated that the return on dollar investments remained competitive, apart from the pound, and that the U.S. economy continued to be the strongest in the world.

16. (C) Zadjali also shared his concern about the continued weakening of the dollar, and noted its effect on the Omani rial, which is pegged to the U.S. currency. In terms of trade, he commented that the government is having to defend its position on the dollar in the wake of complaints

regarding price inflation on consumer goods, most of which are imported from Europe and Asia. Zadjali remarked that the government, in response to such complaints, has argued that there are other factors pushing prices up in Oman, including excess liquidity that is putting upward pressure on real estate and rental prices. Nevertheless, while the CBO retains confidence in the dollar peg, Zadjali cautioned that others in the region may reconsider their currency policies if the dollar continues its slide.

Comment

17. (C) Zadjali's comments reflect the independent, yet cautious approach the Omani government takes in formulating monetary and budgetary policies. The downturn in oil prices during the late 1990s, when the government grappled with a shortfall of funds, remains fresh in many minds. Zadjali was quick to point out that Oman is not as blessed with the natural resources that other GCC members enjoy. For this reason, the government is not willing to commit to GCC-imposed ceilings that it may not be able to honor as easily as other members during down years, especially when the government is behind the financing of a number of important industrial and infrastructure-related projects. On the dollar peg, Zadjali appears content to stay the course that has worked well for Oman; we do not foresee major shifts in Oman's reserves, which are primarily dollar-denominated.
End Comment.
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